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Government
Publications

Canada
Statistics
Gasoline prices.
1925.

Published by the Authority of Hon. Thos. A. Low, M.P.
Minister of Trade and Commerce

DOMINION BUREAU OF STATISTICS - CANADA

INTERNAL TRADE BRANCH

(Issued February 13th, 1925)

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GASOLINE PRICES

Gasoline is one of the few commodities which are selling at or near pre-war levels. Prices collected by the Dominion Bureau of Statistics show that in 1913 the average yearly price of motor gasoline at Toronto was 25¢ per gallon. In 1921 it was 35¢; in 1922, 32½¢; 1923, 25½¢ and in 1924, 25½¢. A tendency to overproduction of crude oil in the United States during recent years and the keen competition of numerous producers to market their output is in the main responsible for this relatively low level of prices. The index numbers for gasoline and the general index numbers for the years from 1921 to date are as follows:-

1913 prices = 100.

Index Numbers of Wholesale
Prices of GasolineIndex Numbers of the
Wholesale Prices of
236 commodities

1913	-	100	1913	-	100
1921	-	140.4	1921	-	171.8
1922	-	130.8	1922	-	152.0
1923	-	103.0	1923	-	153.0
1924	-	101.0	1924	-	155.2

In recent years oil prices have been moving up and down with some appearance of regularity. There has been a cycle which showed good prices at the beginning of the year then overproduction followed by a fall in prices. These conditions are particularly true of crude oil prices though those for fuel oil have also fluctuated violently and have followed crude oil prices more closely than have those for gasoline. Several reasons have been advanced to explain the lesser degree of fluctuation in gasoline prices. One is that the gasoline content of some crude oils which are the main source of fuel oil, is small and fuel oil has borne the brunt of the up and down movement and has made possible greater stabilization in gasoline prices. This does not necessarily mean that consumers of gasoline have benefited at the expense of fuel oil users because of the conditions of convertibility which exist in relation to the use of coal and oil as fuel.

The conditions of supply are also different in relation to crude oil and gasoline. There are innumerable producers of crude oil ranging from the farmer who has a single well on his farm to large organizations such as the Standard Oil Company, The Royal Dutch Shell Company, and The Anglo-Persian-Burmah Company. These three firms, however, control less than 30 per cent of total production and it is well known that the large companies do not attempt to control the production of crude oil. At any moment wild-cattling may lead to the discovery of wells which will bring about conditions of oversupply. Attempts have been made by refiners to limit production by refusing to buy more than a certain percentage of output but the results were not very satisfactory. The only remedy seems to have been in the working of competition which forced the price level down low enough to drive marginal producers out of business and so decrease the output.

The supply of gasoline, on the other hand, being derived from a much smaller number of producers is not subject to the same ruinous competition. Moreover it would seem that the method of "cracking", which is used to obtain higher yields of gasoline from crude oil and which has become much more skilful in recent years, can be used as a kind of safety valve to augment or lessen supply, according to conditions of supply and demand. If crude oil is being overproduced then the "cracking" method can be more or less discontinued, depending upon costs. It is claimed that because the production of this commodity is in the hands of a limited number of firms its price is reduced on account of the large scale production (and distribution) which is the result. It enables gasoline to be marketed at such a price that it does not pay other firms to step in and compete.

The years 1923 and 1924 were in many respects similar in regard to the oil situation. Both commenced with diminished output of crude oil then production showed big increases and finally at the end of the year dropped off again. It has been estimated that 2,000,000 barrels of crude oil per day is required to meet American demands. In September, 1923, the production had reached 2,280,700 barrels. By the beginning of 1924 it had decreased to 1,752,000 barrels per day. Prices which had fallen during the latter part of 1923 rose again. By August, 1924, the production of crude oil was again over the 2,000,000 mark, the daily output about August 16th being 2,029,650 barrels, and another price decline ensued.

The oil industry commenced the year 1924 very hopefully because the Californian wells, which had upset calculations in 1923 and whose production was mainly responsible for the price decline in 1923, were showing decreasing output. It was expected that demand would considerably reduce reserve stocks. However, due to the backward season and to stimulated output in other regions than California, gasoline stocks accumulated and caused a break in prices. At the beginning of 1924 there were 1,074,899,650 gallons of gasoline in stock in the United States. In December the stock was 1,179,503,185 gallons. The accumulation was achieved in spite of a consumption which was ultimately greater than in 1923. The year 1925 has commenced in much the same manner as its two predecessors, i.e. with lower crude oil production, expected drains on stocks, and rising prices. Conditions in the oil business in the United States are reflected in Canada. Wholesale gasoline prices at Montreal rose from 20½¢ per gallon in December to 22½¢ in January.

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